

Mississippi Tax Policy

Options for Reform

Presentation to the Mississippi Tax
Policy Panel
September 1, 2016

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TOPICS OF DISCUSSION

- Overview of Mississippi Tax Policy
 - Tax Rates and Tax Collections
 - State-Local Tax Burden
 - State Business Tax Climate Index
- Previous State Success Stories
- Suggestions for Reform

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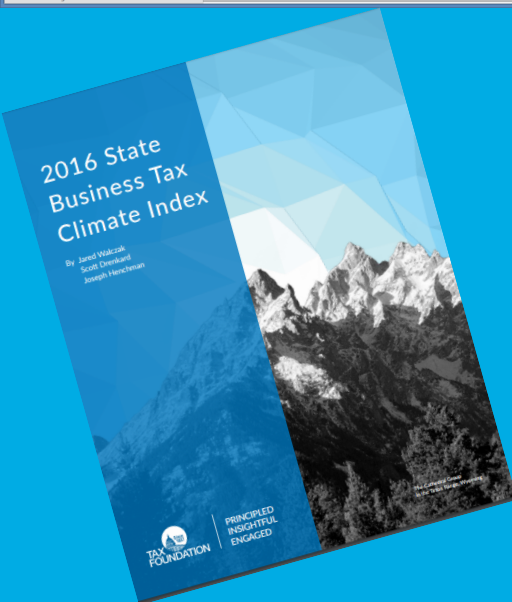
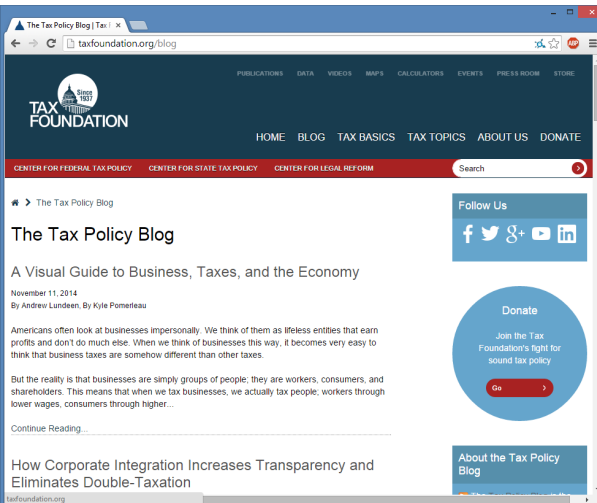
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research,
data,
& analysis

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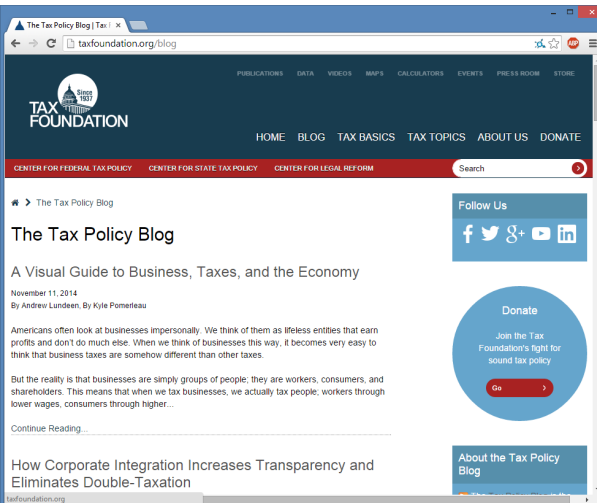
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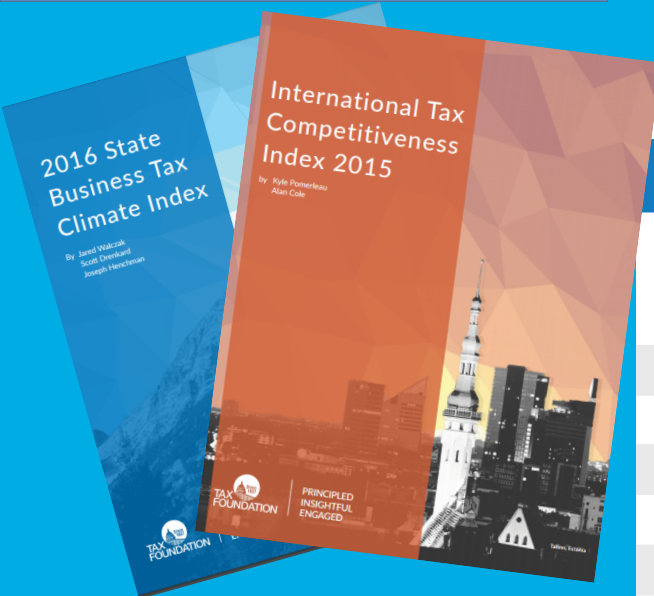
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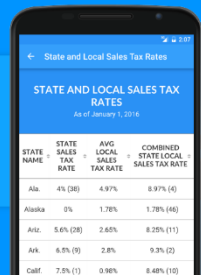
How do the 2016 Presidential Tax Plans Compare So Far?

By Kyle Pomeroy and Alan Cole

	Bush	Carson	Cruz	Paul	Rubio	Santorum	Trump
10-Year GDP Growth	10%	16.0%	13.9%	12.9%	15%	10.2%	11.5%
10-Year Capital Investment Growth	28.8%	46.6%	43.9%	40.5%	48.9%	29%	29%
10-Year Wage Rate Growth	7.4%	10.9%	12.2%	11.4%	12.5%	7.3%	6.5%
Added Jobs (millions)	2.7	5.2	4.9	4.3	2.7	3.1	5.3
10-Year Static Revenue Estimate (billions)	-\$3,665	-\$5,617	-\$3,666	-\$1,797	-\$6,055	-\$3,223	-\$11,980
10-Year Dynamic Revenue Estimate (billions)	-\$1,610	-\$2,472	-\$768	+\$737	-\$2,401	-\$1,093	-\$10,135

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The Tax Policy Blog

A Visual Guide to Business, Taxes, and the Economy

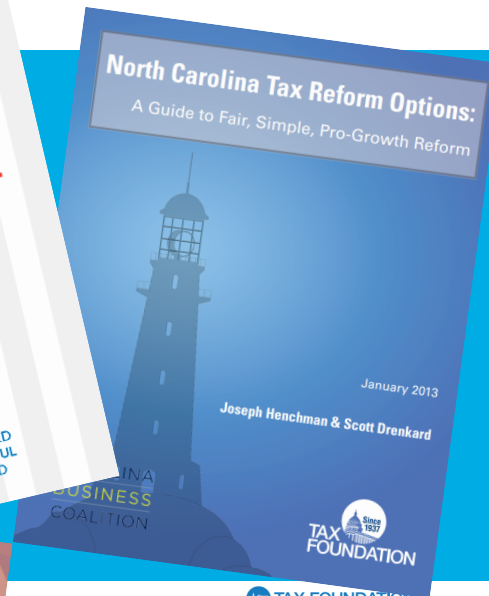
November 11, 2014
By Andrew Lundeen, By Kyle Pomeroy

Americans often look at business taxes as a burden on profits and don't do much to think that business taxes are a burden on the economy. But the reality is that business taxes are a burden on shareholders. This means that lower wages, consumers that...

Continue Reading...

How Corporate Income Tax Eliminates Double Taxation

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How do the 2016 Presidential Tax Plans Compare So Far?

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STATE AND LOCAL SALES TAX RATES			
As of January 1, 2016			
STATE NAME	STATE SALES TAX RATE	AVG LOCAL SALES TAX RATE	COMBINED STATE & LOCAL SALES TAX RATE
Ala.	4% (36)	4.97%	8.97% (46)
Alaska	0%	1.76%	1.76% (46)
Ark.	5.6% (28)	2.65%	8.25% (11)
Az.	6.5% (9)	2.8%	9.3% (22)
Calif.	7.5% (1)	0.96%	8.46% (12)

ACADEMIC LITERATURE ON TAXES & GROWTH

In 2012, we reviewed 26 major studies that examine the relationship.



Special Report

What Is the Evidence on Taxes and Growth?

By
William McBride, PhD

Introduction

The idea that taxes affect economic growth has become politically contentious and the subject of much debate in the press and among advocacy groups. That is in part because there are competing theories about what drives economic growth. Some subscribe to Keynesian, demand-side factors, others Neo-classical, supply-side factors, while yet others subscribe to some mixture of the two or something entirely unique. The facts, historical and geographical variation in key parameters for example, should shed light on the debate. However, the economy is sufficiently complex that virtually any theory can find some support in the data.

For instance, the Congressional Research Service (CRS) has found support for the theory that taxes have no effect on economic growth by looking at the U.S. experience since World War II and the dramatic variation in the statutory top marginal rate on individual income.¹ They find the fastest economic growth occurred in the 1950s when the top rate was more than ninety percent.² However, their study ignores the most basic problems with this sort of statistical analysis, including: the variation in the tax base to which the individual income tax applies; the variation in other taxes, particularly the corporate tax; the short-term versus long-term effects of tax policy; and reverse causality, whereby economic growth affects tax rates. These problems are all well known in the academic literature and have been dealt with in various ways, making the CRS study unpublishable in any peer-reviewed academic journal.³

So what does the academic literature say about the empirical relationship between taxes and economic growth? While there are a variety of methods and data sources, the results consistently point to significant

ACADEMIC LITERATURE ON TAXES & GROWTH

- Higher taxes are associated with slower growth.
- All studies but three agree.
- All studies in the last fifteen years agree.

ACADEMIC LITERATURE ON TAXES & GROWTH

Authors included:

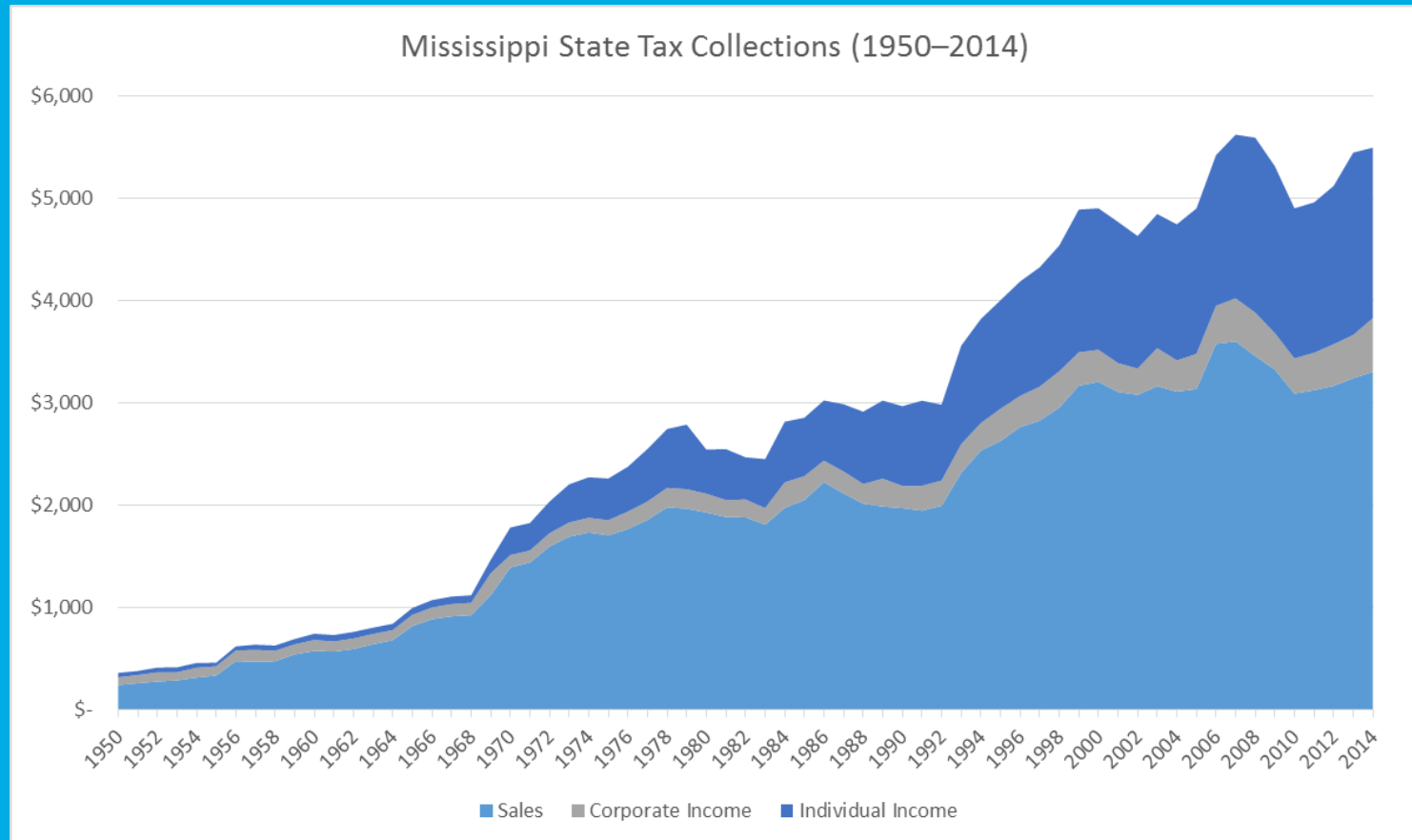
- Christina Romer
- Jens Arnold of the OECD

COMPARATIVE STATE TAX POLICY

- We think of state tax policy in four large categories:
 - Tax Rates
 - Tax Collections
 - Tax Burdens
 - Tax Structure

TAX COLLECTIONS

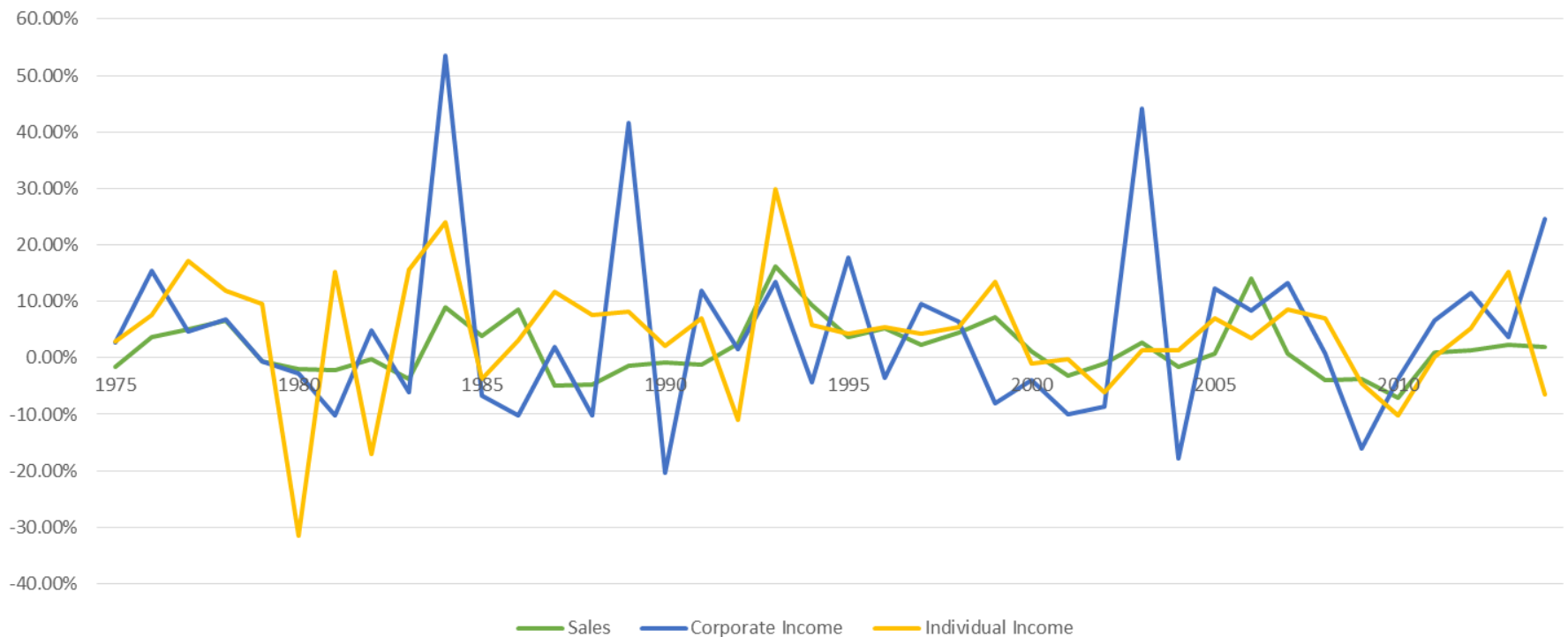
STATE TAX COLLECTIONS



TAX COLLECTIONS

REVENUE VOLATILITY

State Revenue Volatility
Annual Percent Change in Mississippi State Tax Collections by Tax Type (1975–2014)

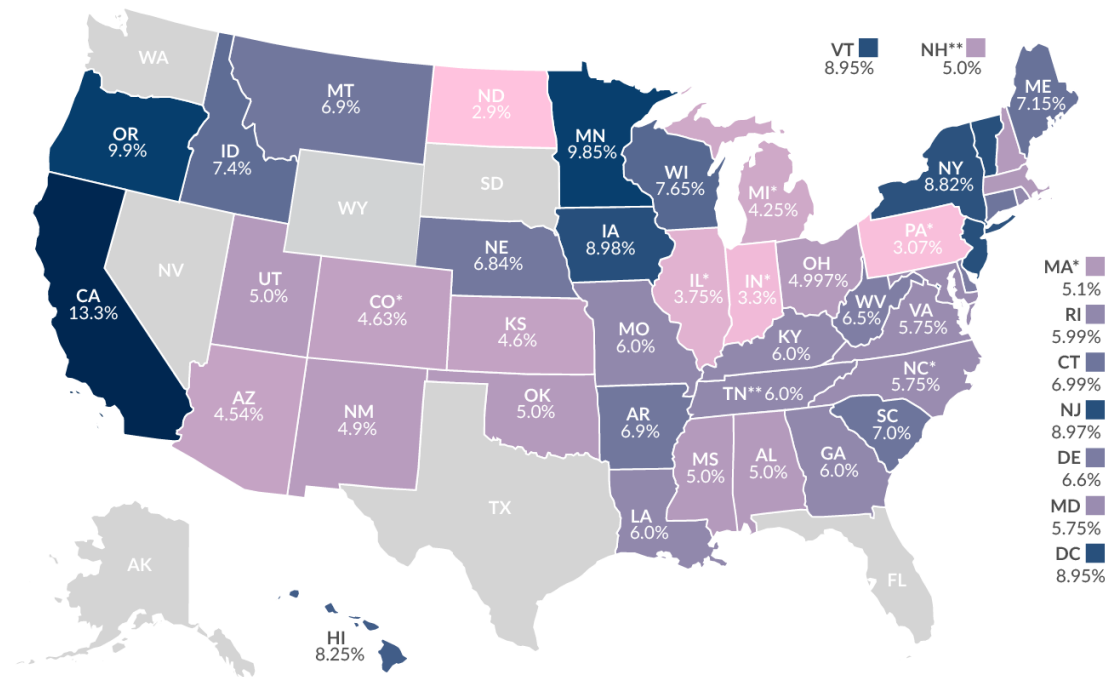


TAX RATES

INDIVIDUAL INCOME TAX

How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2016



Note: (*) State has a flat income tax. (**) State also only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.
Source: State tax forms and instructions.

Top State Marginal Individual Income Tax Rate

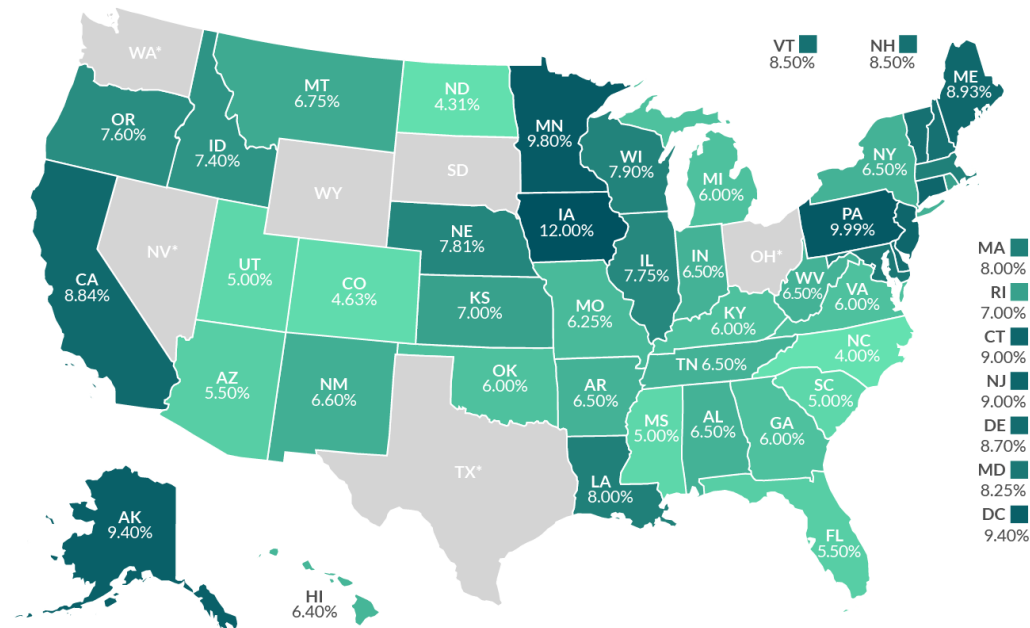
Lower Higher

TAX RATES

CORPORATE INCOME TAX

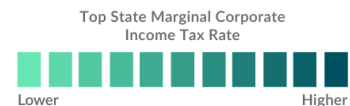
How High Are Corporate Income Tax Rates in Your State?

Top State Marginal Corporate Income Tax Rates in 2016



Note: (*) Nevada, Ohio, Texas, and Washington do not have corporate income taxes but do have gross receipts taxes with rates not strictly comparable to corporate income tax rates. Arkansas assesses a surcharge of 3% of the taxpayer's total liability. Connecticut's rate includes a 20% surtax. Delaware and Virginia have gross receipts taxes in addition to their corporate income taxes. Illinois' rate includes two separate corporate income taxes, one at a 5.25% rate and one at a 2.5% rate. The tax rate in Indiana will decrease to 6.25% on July 1, 2016.

Source: State tax statutes, forms, and instructions; Commerce Clearinghouse.

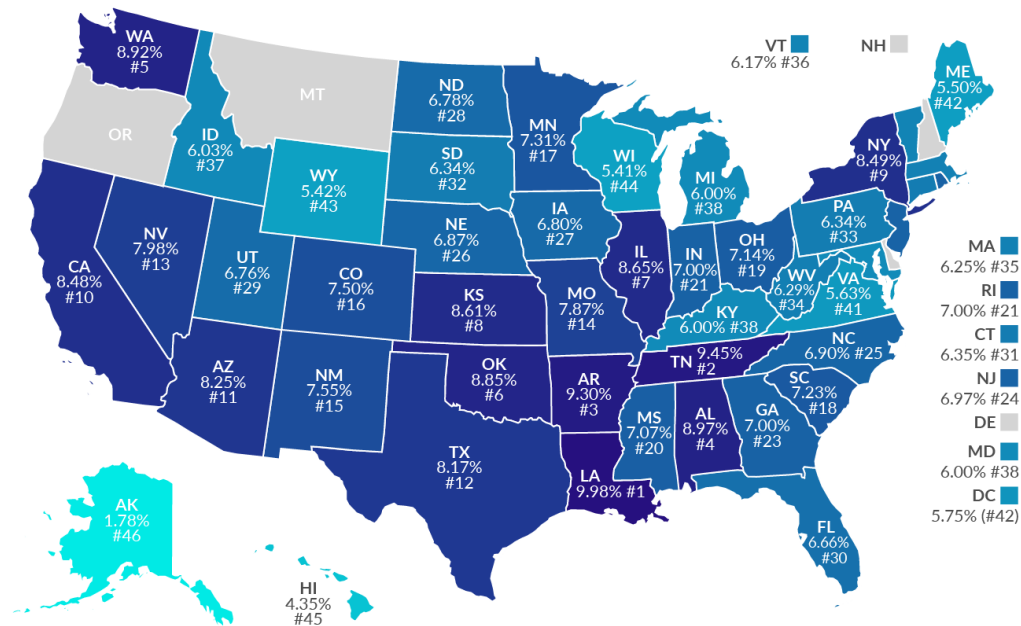


TAX RATES

SALES TAX

How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates (July 1, 2016)



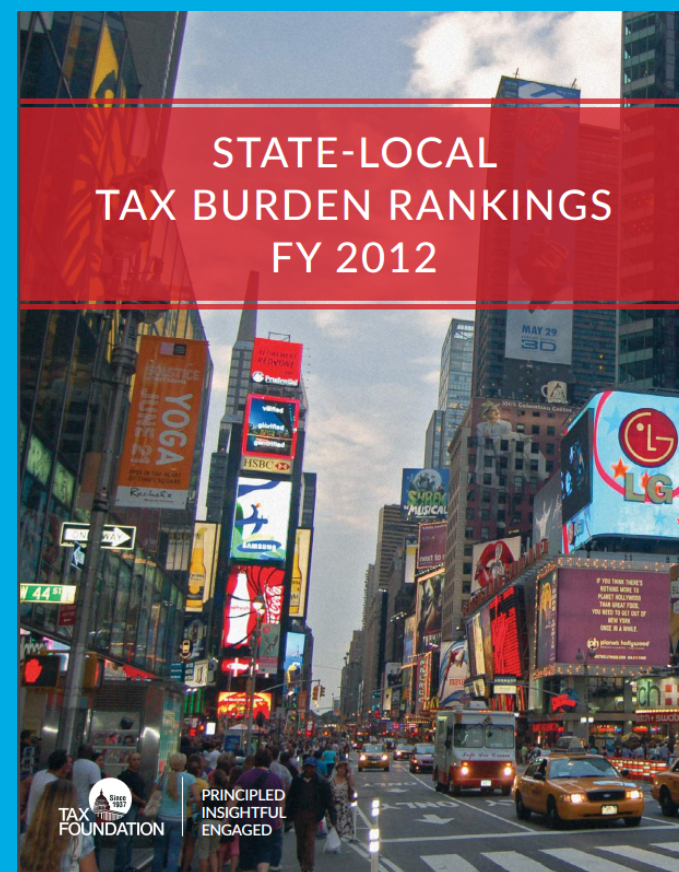
Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax rates. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. Due to data limitations, the table does not include sales taxes in local resort areas in Montana. Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.5%. Their average local score is represented as a negative.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department Websites



STATE-LOCAL TAX BURDEN

- Tax burden is the portion of income that goes to taxes.
- Tax collections is amount received by state; tax burden is amount paid by residents.
- Incidence: Alaska oil taxes
- Incidence: Gasoline taxes



STATE-LOCAL TAX BURDEN

TAX INCIDENCE

Legal Incidence is Different from Economic Incidence

Example: Gas Taxes



State government dictates that service station businesses must collect taxes on the purchase of gasoline.

Service stations bear the legal incidence of the tax.



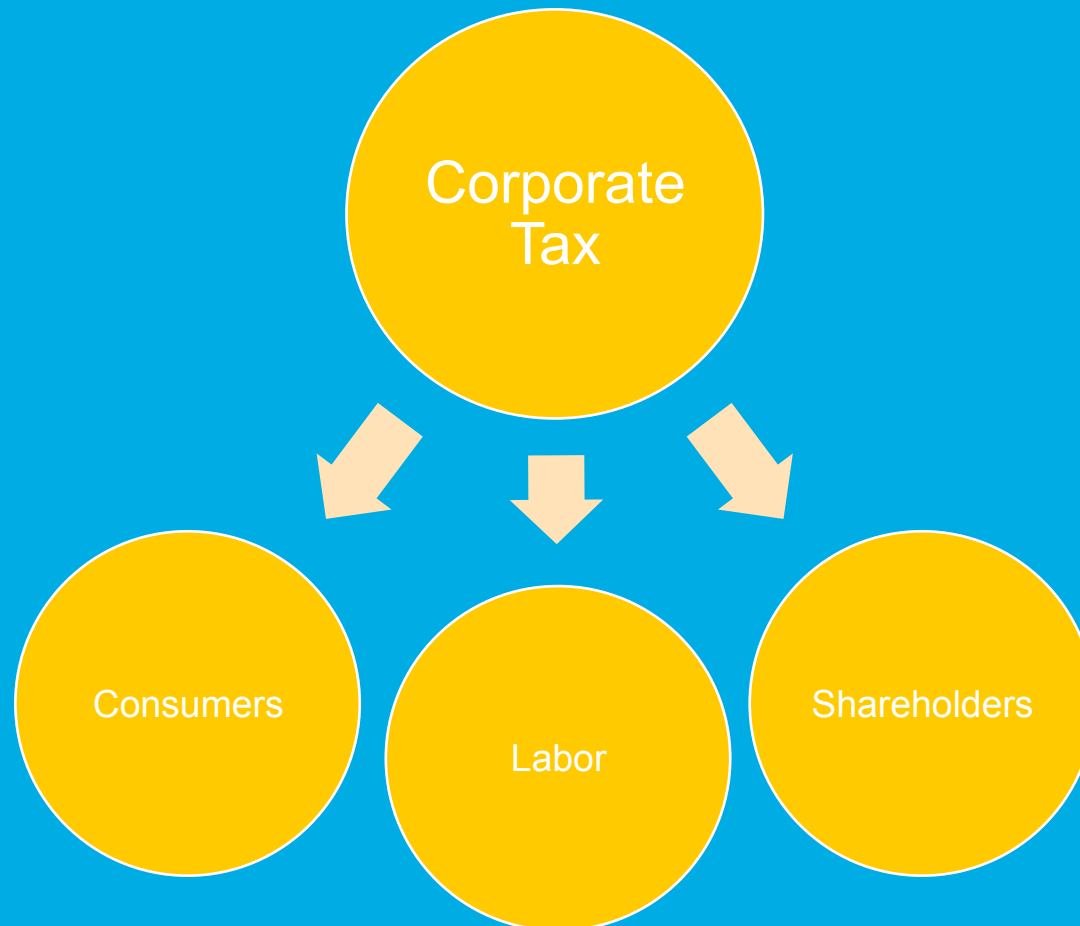
Customers buy at service stations, which have shifted the tax forward to customers by increasing the price.

Customers bear the economic incidence of the tax.

Businesses send tax collections to the state government. Even though the business has physically sent the money to the government, it did not bear the economic burden of the tax.

STATE-LOCAL TAX BURDEN

TAX INCIDENCE

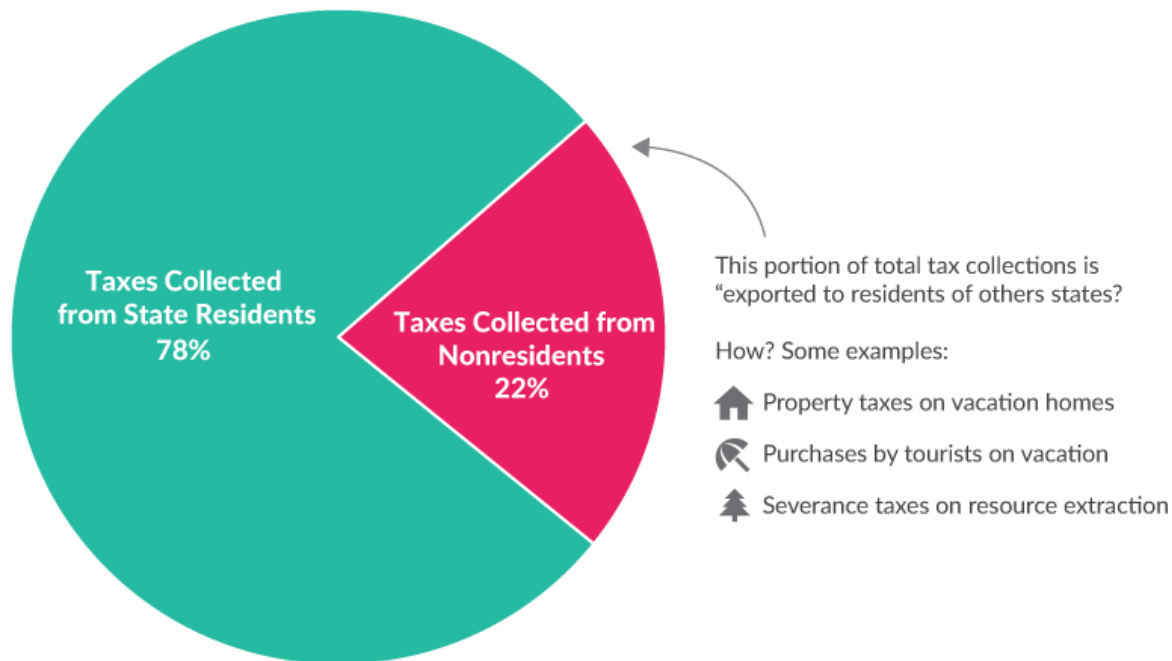


STATE-LOCAL TAX BURDEN

TAX EXPORTING

Tax Exporting is the Shifting of Tax Burdens across State Lines

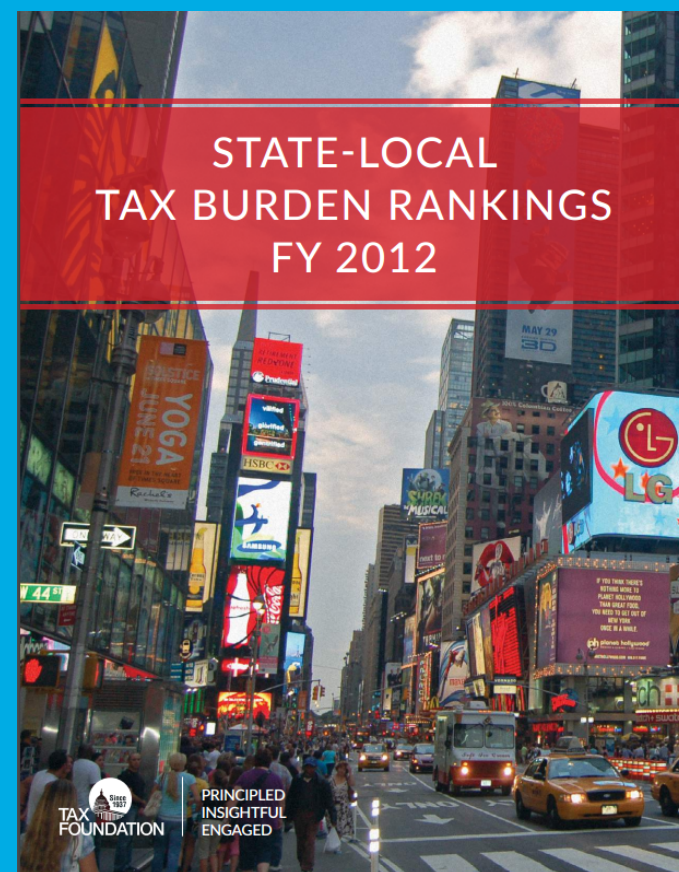
Total Combined State and Local Tax Collections by Taxpayer Type (FY 2012)



STATE-LOCAL TAX BURDEN

MISSISSIPPI, FY 2012

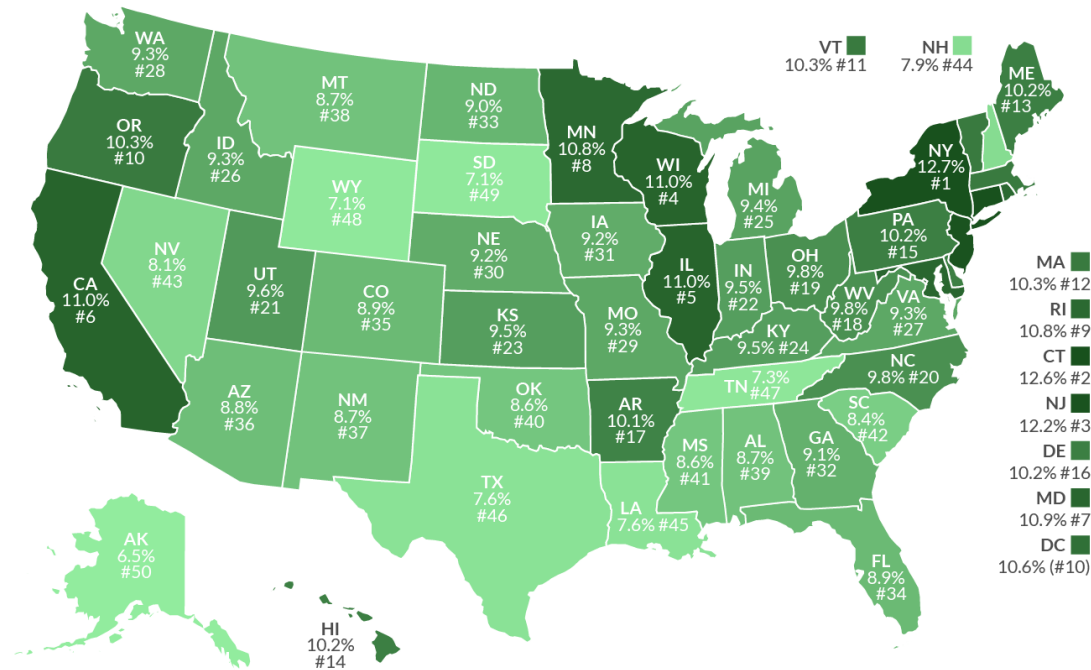
- 8.6 percent
- 41st highest
- \$1,909.66 (70 percent) to in-state governments and \$832.46 (30 percent) to out-of-state governments.



STATE-LOCAL TAX BURDENS

State-Local Tax Burdens by State

State-Local Tax Burdens as a Percentage of State Income, FY 2012



Note: As a unique state-local entity, Washington, DC is not included in rankings, but the figure in parentheses shows where it would rank.

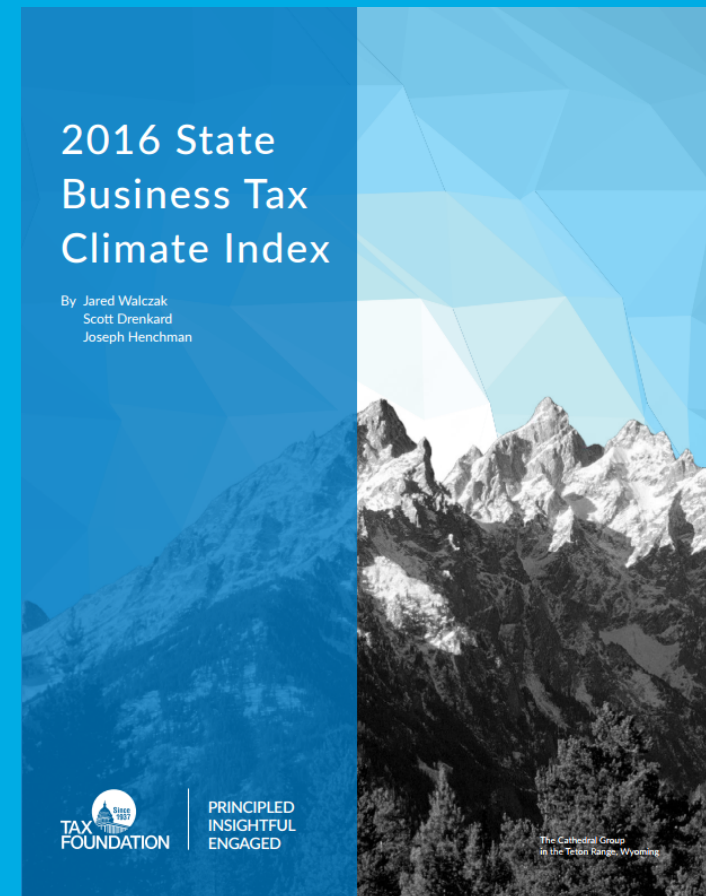
Source: Tax Foundation calculations, U.S. Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

State-Local Tax Burden as a Percentage of State Income



STATE BUSINESS TAX CLIMATE INDEX

- Comprehensive look at state tax structures
- The **how** rather than the **how much**
- Five areas of tax:
 - Individual income taxes
 - Corporate income taxes
 - Sales and excise taxes
 - Property taxes
 - Unemployment insurance taxes



STATE BUSINESS TAX CLIMATE INDEX

Overall: 20th

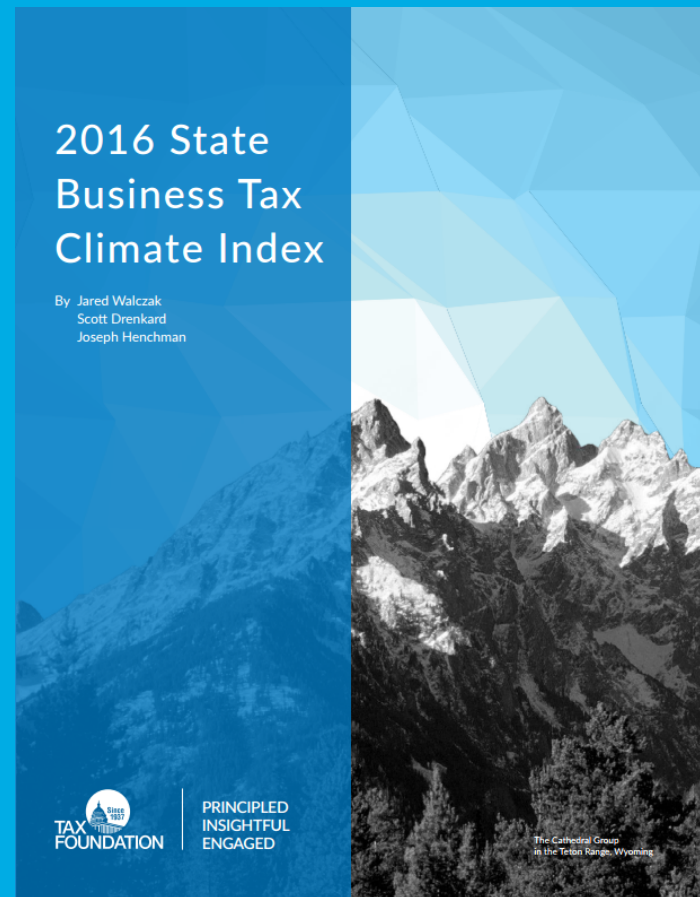
Corporate: 13th

Individual: 21st

Sales: 28th

Unemployment Insurance: 8th

Property: 35th



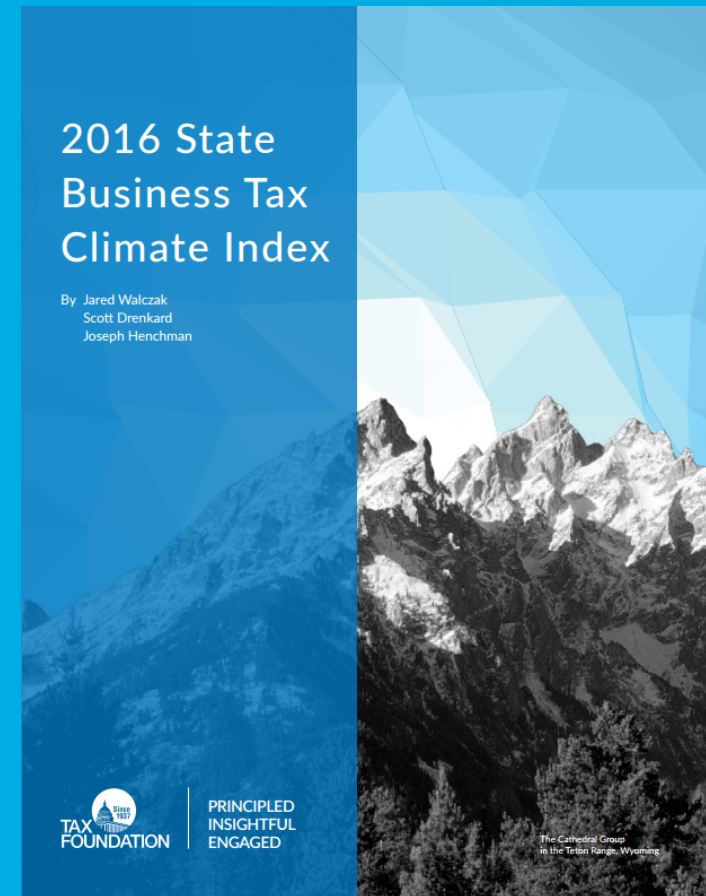
STATE BUSINESS TAX CLIMATE INDEX

Component	MS	TN	AL	AR	LA
Overall	20	16	29	38	36
Corporate	13	16	25	42	38
Individual	21	8	22	28	27
Sales	28	46	41	43	50
Unemp. Insu.	8	25	26	43	5
Property	35	37	17	27	28

STATE BUSINESS TAX CLIMATE INDEX

CORPORATE INCOME TAX

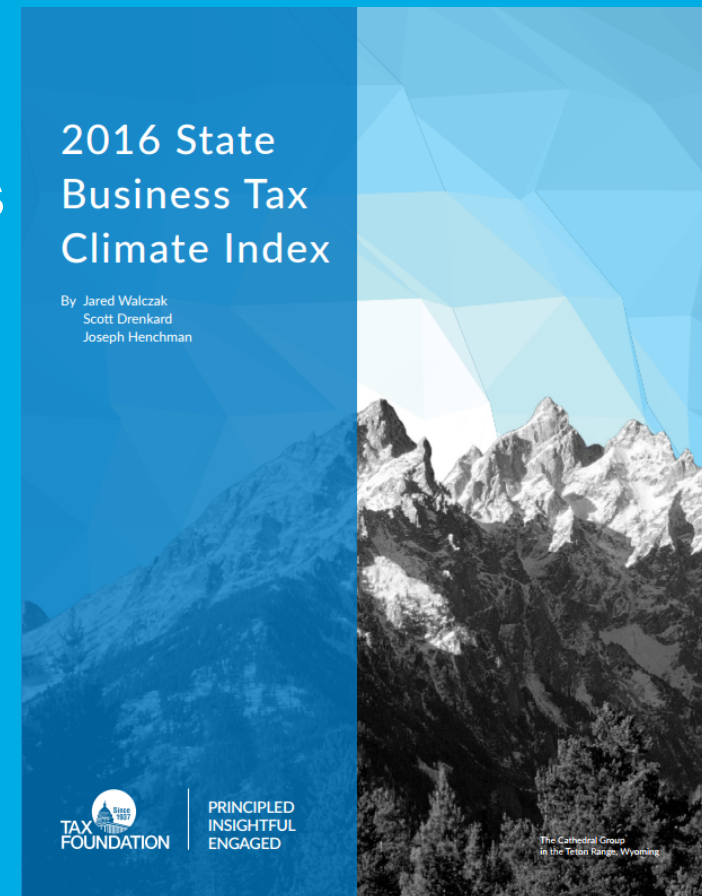
- Mississippi's top rate is fairly competitive to its neighbors, but the brackets are not indexed and the rates are graduated.
- MS has one of the best NOL treatments in the nation.
- Mississippi still uses a throwback rule.
- Mississippi has a jobs credits and an investment credit.



STATE BUSINESS TAX CLIMATE INDEX

INDIVIDUAL INCOME TAX

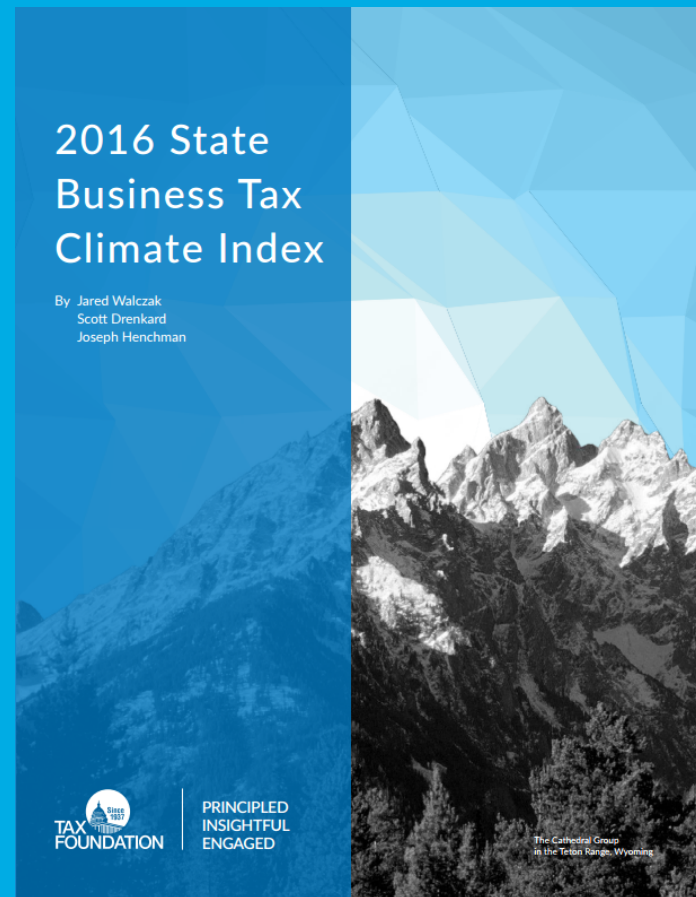
- Mississippi's top rate is fairly competitive to its neighbors, but the brackets are not indexed and the rates are graduated.
- The state's personal exemption and standard deduction are also not indexed for inflation.
- Mississippi has a marriage penalty.



STATE BUSINESS TAX CLIMATE INDEX

SALES TAX

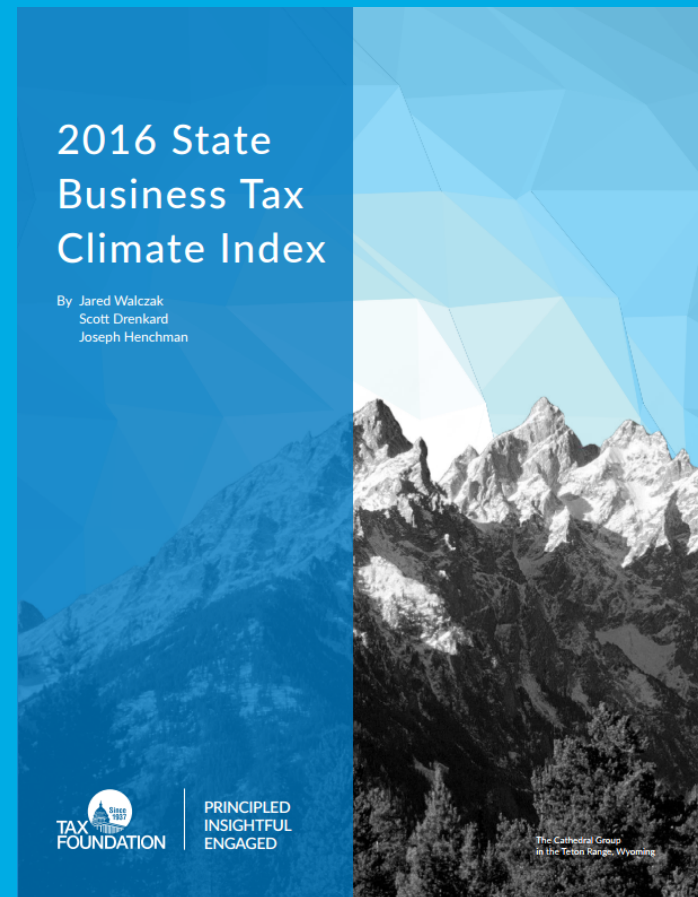
- Mississippi has the second highest state-level sales tax rate in the country.
- Mississippi includes a number of business inputs in the sales tax base, such as machinery and equipment and some business services.



STATE BUSINESS TAX CLIMATE INDEX

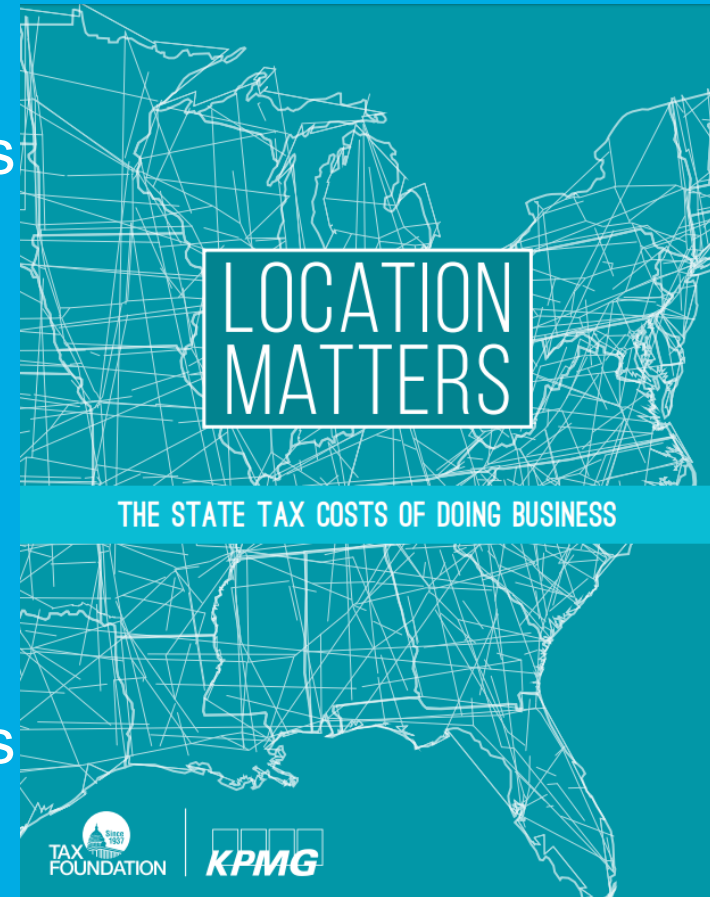
PROPERTY TAX

- Mississippi currently has a franchise tax, though it will begin phasing out.
- Mississippi also taxes inventory, one of only 14 states to include it in the property tax base. There are credits to offset, but that adds complexity.



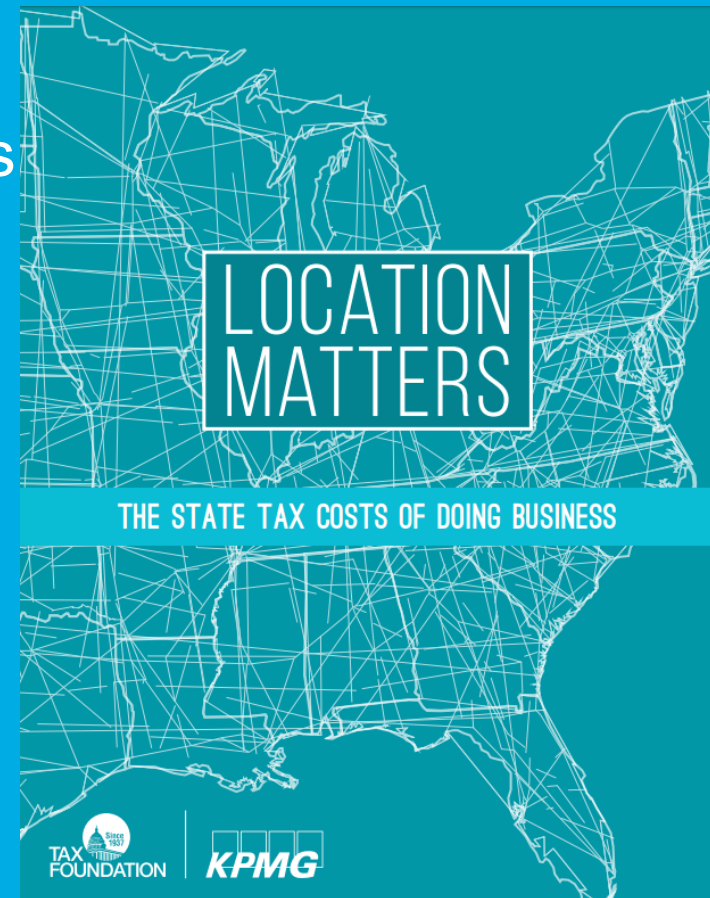
LOCATION MATTERS

- Apples-to-apples comparison of corporate tax costs in the 50 states
- Seven model firm types
- All business taxes
 - Corporate income taxes
 - Property taxes
 - Sales taxes
 - Unemployment insurance taxes
 - Capital stock & inventory taxes
 - Gross receipts taxes

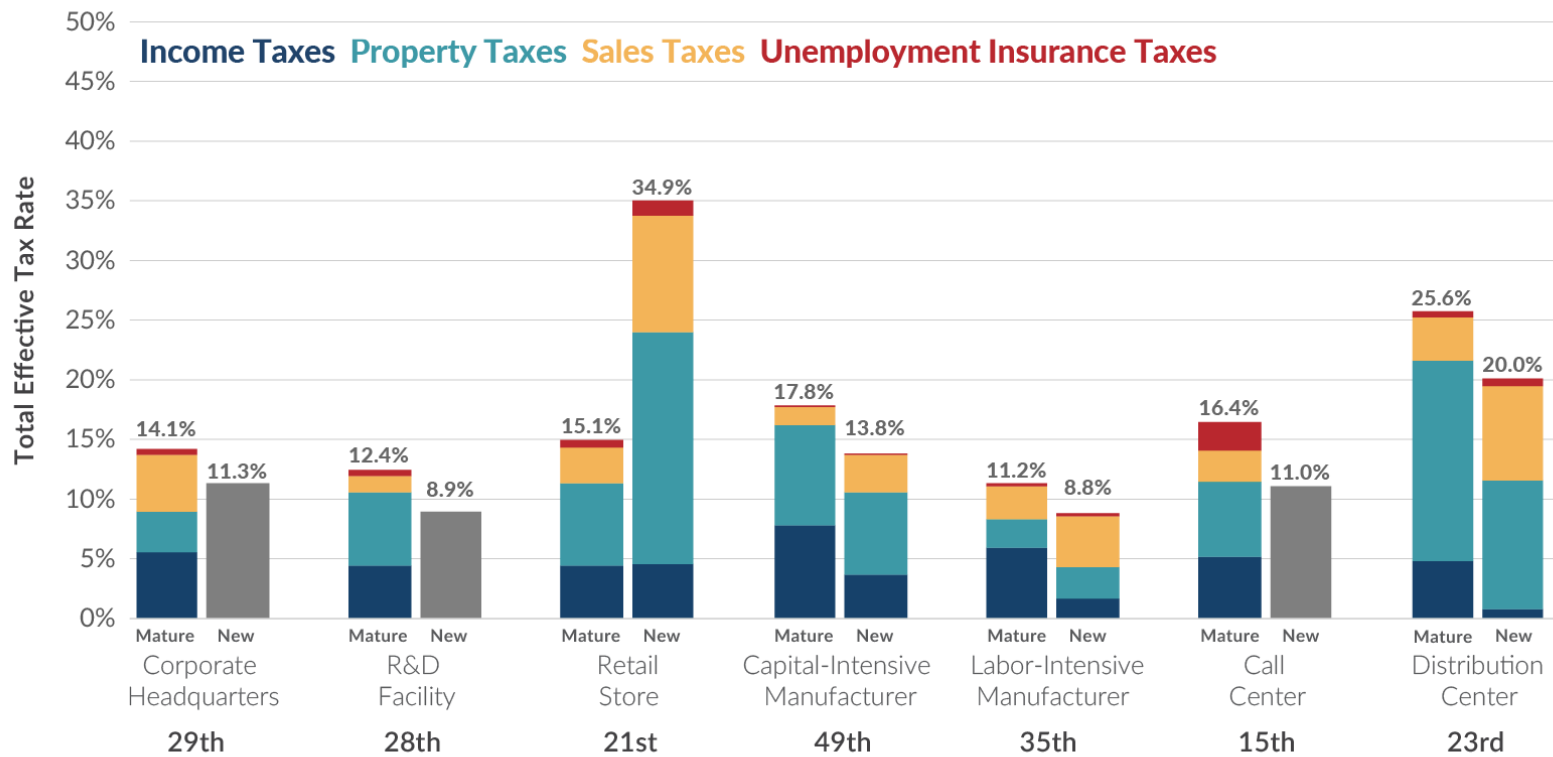


LOCATION MATTERS

- Apples-to-apples comparison of corporate tax costs in the 50 states
- Seven model firm types
- All business taxes
- Modeled twice: once as a mature firm and once as a new firm eligible for incentives



LOCATION MATTERS



Gray bars indicate that tax type breakdowns are unavailable due to negative effective tax rates for one or more tax types.

PAST MISSISSIPPI EFFORTS

- 2008: Tax Reform Commission's plan included key short term elements:
 - Reduce franchise tax
 - Eliminate income tax credits
 - Exempt first \$10,000 in corporate income
 - Expand 3 percent and 4 percent brackets
 - Modifying inventory tax (*de minimus* and expanded freeport exemption)

PAST MISSISSIPPI EFFORTS

- 2008: Tax Reform Commission's plan (Continued):
 - Add specified services to the sales tax base
 - Modify Advantage Jobs Program and film tax credits
- Tax Reform Commission's Long Term Goals:
 - Eliminate the franchise tax
 - Eliminate the inventory tax
 - Broaden the sales tax base

PAST MISSISSIPPI EFFORTS

- 2012: Inventory tax credits established.
- 2016: Elimination of the 3 percent bracket on the individual and corporate income tax.
 - By 2022, no tax on income below \$5,000 before adding the standard deduction and personal exemption.
- Phasedown of the franchise tax.
 - By 2028, the franchise tax will be eliminated.

	Current and thru 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028 and after
Tax per \$1,000 of capital	\$2.50	\$2.25	\$2.00	\$1.75	\$1.50	\$1.25	\$1.00	\$0.75	\$0.50	\$0.25	None

INDIANA

SUCCESS STORY

- 2011: Indiana did not want to copy Illinois.
 - Started corporate tax cuts (from 8.5 percent)
- 2013: Indiana passed a robust tax reform package.
 - Repealed estate tax
 - Cut already second-lowest-in-the-nation income tax
 - Cut corporate rate

INDIANA

SUCCESS STORY

- 2014: Major reform of business property tax
- 2015: Individual and corporate rate cut again
- Future scheduled changes:
Cutting individual rate to 3.23 percent by 2017
Cutting corporate rate to 4.9 percent by 2021
- Top ten on *State Business Tax Climate Index*

DISTRICT OF COLUMBIA

SUCCESS STORY

- Fiscal meltdown in 1990s led to strong fiscal controls
- Comptroller must certify budget, minimum rainy day fund
- Desire to be at least as competitive as Maryland and more competitive with Virginia; Tax Revision Commission

DISTRICT OF COLUMBIA

SUCCESS STORY

- Dropped business tax from 9.975 to 8.25 percent
- Cut middle income tax bracket from 8.5 to 6.5 percent
- Increased standard deduction, recoupled estate tax, broadened sales tax
- Divided into pieces to take effect as revenue exceeds threshold
- Last elements take effect this year, after surpluses

NORTH CAROLINA

SUCCESS STORY

- North Carolina had its first Republican majority paired with a desire to be more competitive and “incentive fatigue.”
- The plan cut income tax from 7.75 to 5.8 percent, then to 5.75 percent in 2015, cut corporate rate from 6.9 to 6 percent, then down to 3 percent, broadened sales tax, and repealed estate tax.
- It was a net tax cut of over \$800 million per year.
- Since the reform, North Carolina has accelerated reductions and boosted standard deductions, and experienced strong economic growth and budget surpluses.
- From #44 to #16 on *State Business Tax Climate Index*

NORTH CAROLINA SUCCESS STORY

Sales Taxes: Before and After Reform

Overview of Sales Tax Changes (2013, 2014, and 2015)

Sales Taxes Before		Sales Taxes After	
Sales Tax Holidays Two tax-free weekends: <ul style="list-style-type: none">• Clothing, school supplies, computers, education software, and sports equipment (early August)• Energy Star appliances (early November)	Sales Tax on Services Most service transactions exempted from the sales tax base	Sales Tax Holidays None (Both repealed)	Sales Tax on Services Limited expansion of base to certain services, including service contracts and services associated with the purchase of tangible personal property
Miscellaneous Provisions Lower tax rates for electricity, piped natural gas, manufactured homes, mobile homes, amusements, and entertainment		Miscellaneous Provisions Electricity, piped natural gas, amusements, entertainment, manufactured homes, and mobile homes subject to the full state rate Note that 50 percent of the cost of mobile and manufactured homes is exempt.	

TAX TRIGGERS AND PHASE-INS

- Tax triggers and phase-ins are a key component of many state's tax reform efforts in recent years.
- Eleven states and DC have used tax triggers in recent years.
- Setting appropriate benchmarks, baselines, and implementation mechanisms is important.

REFORM OPTIONS

Corporate Income Tax

Consolidate the rate and
inflation index the brackets
Throwback rule
Eliminate credits

Individual Income Tax

Consolidate the rate and
inflation index the brackets
Marriage Penalty

2016 State Business Tax Climate Index

By Jared Walczak
Scott Drenkard
Joseph Henchman



PRINCIPLED
INSIGHTFUL
ENGAGED

The Cathedral Group
in the Teton Range, Wyoming

STATE BUSINESS TAX CLIMATE INDEX

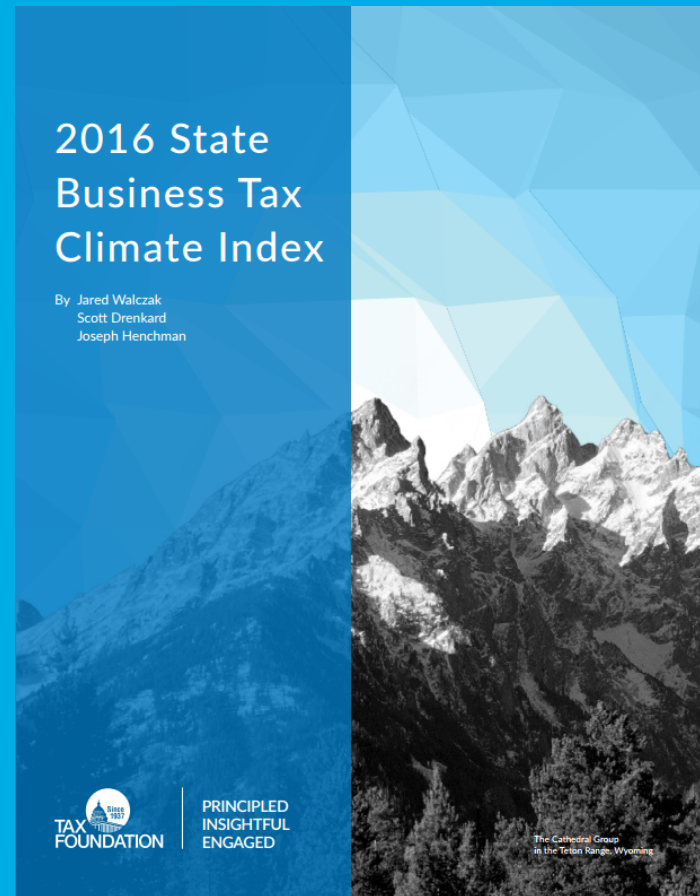
REFORM OPTIONS

Sales Tax

Broaden base, but exempt
business inputs

Property Tax

Eliminate inventory taxes
Accelerate franchise tax
phaseout



CONCLUDING THOUGHTS

MISSISSIPPI

- A package of reforms can tremendously help Mississippi's competitiveness.
- Cutting revenue does not have to be the only criterion. Many of these reforms can combined to offset revenue losses.
- Tax triggers can mitigate concerns about revenue availability.

QUESTIONS

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